

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

PETITION OF SOUTH CENTRAL BELL)
TELEPHONE COMPANY TO CHANGE AND)
INCREASE CERTAIN RATES CHARGES) CASE NO. 9160
FOR INTRASTATE TELEPHONE)
SERVICE)

ORDER ON REHEARING

On May 2, 1985, the Commission issued an Order in this case which, in part, established different call allowances for Directory Assistance ("DA") and Customer Name and Address ("CNA") services. On May 22, 1985, South Central Bell Telephone Company ("SCB") filed a Petition for Rehearing on CNA. SCB's Petition for Rehearing was granted on June 11, 1985, and the hearing was held on August 15, 1985.

The only intervenors of record present at rehearing were the Attorney General's Consumer Protection Division and the City of Louisville.

SCB's rate case application included proposals to add CNA to DA service, eliminate certain DA exemptions, and reduce DA call allowance to zero. The Commission approved the addition of CNA service and elimination of DA exemptions, but authorized three call allowances in the case of DA service and zero call allowances in the case of CNA service.

Discussion

SCB's Petition for Rehearing raised several issues, including: (1) CNA should be considered a DA enhancement rather than a separate service, (2) different DA and CNA call allowances will cause expenses that were neither anticipated nor included in SCB's rate case application, and which were not included in either authorized revenue requirement or rate design, (3) different DA and CNA call allowances could not be implemented at the time of the Commission's Order, causing a loss of revenue authorized in the Commission's Order,¹ (4) the Commission erred in its analysis of revenue attributable to DA and CNA, and (5) the Commission erred in recognizing CNA revenues and not recognizing CNA expenses in rate development.

In its rate case application SCB proposed CNA as an integrated addition to or enhancement of traditional DA service. That is, rates, rules, and regulations applicable to DA would also apply to CNA without distinction, including the crucial matter of call allowances. Under SCB's plan, a given call allowance - e.g., five - would apply to DA and CNA in total, irrespective of whether a caller requested another customer's telephone number, name, or address.

In its Order of May 2, 1985, the Commission did not view CNA as an integrated addition to DA. Instead, the Commission viewed CNA separate from DA and concluded that CNA was a premium

¹ It should be noted that SCB has not implemented a DA/CNA plan, pending this Order on rehearing.

service of such potential value that it could "stand alone", and, therefore, should not be granted the benefit of call allowances accorded to traditional DA. Thus, the Commission ordered three call allowances in the case of DA and zero call allowances in the case of CNA.

At the time of its Order, the Commission did not anticipate that different DA and CNA call allowances would cause expenses that would not be incurred under an integrated DA and CNA plan. In its Petition for Rehearing, SCB states that these additional expenses amount to \$242,000.² In the prefiled testimony of its witness, Ms. Joan Mezzell, Operational Manager, Headquarters Rates and Economics, SCB states that these additional expenses amount to \$317,602.³ The difference is due to "further study" of the issue.⁴

In view of the additional expenses caused by different DA and CNA call allowances, on rehearing the Commission is of the opinion that it should not take any action that results in imposing unnecessary costs on SCB's Kentucky customers and that, therefore, DA and CNA should be considered an integrated service offering, with the same call allowance applying to DA and CNA in total.

² Petition for Rehearing ("P.R."), page 2 and attachment.

³ Joan Mezzell Prefiled Testimony ("Mezzell"), Exhibit 1.

⁴ Ibid., page 5.

SCB's Petition for Rehearing also states a revenue loss due to delayed implementation of a DA and CNA plan in the amount of \$61,389 per month of delay.⁵ However, Ms. Mezzell's prefiled testimony states that the revenue loss is \$63,917 per month of delay.⁶ It appears that the difference is due to alternative priceouts and relates to SCB's allegation of error in the Commission's analysis of revenues attributable to DA and CNA.⁷

According to SCB, delay in the implementation of a DA and CNA plan was due to various technological and managerial limitations.⁸ The Commission was not aware of these limitations at the time of its Order of May 2, 1985.

The Commission will not grant recovery of any revenue loss due to delayed implementation as this issue has been resolved on rehearing. It is not the general practice of the Commission to require and impose recovery mechanisms either positive or negative on issues decided on rehearing.

As well as petitioning for an integrated DA and CNA plan, and the recovery of lost revenue due to delayed implementation of a DA and CNA plan, SCB's Petition for Rehearing alleges that the

⁵ P.R., page 2 and attachment.

⁶ Mezzell, Exhibits 1 and 2.

⁷ Transcript of Evidence ("T.E."), August 15, 1985, page 30.

⁸ Ibid., pages 9-10.

Commission erred in its analysis of revenues attributable to DA and CNA. SCB's Petition for Rehearing states that the priceout error is \$30,332.⁹ However, Ms. Mezzell's prefiled testimony states that the priceout error is \$177,666.¹⁰ The difference is apparently due to SCB's applying a collectable factor to CNA billable call volumes where DA and CNA have different call allowances.¹¹

Since the Commission has taken the action of integrating DA and CNA in this Order, the collectable factor used by SCB in its rehearing exhibits is inappropriate and should not be used to decrease CNA billable call volumes. Also, upon reexamination of its rate case priceout of DA and CNA, the Commission agrees that there was a priceout error in the amount of \$30,332.

SCB's Petition for Rehearing further states that the Commission erred in imputing revenue to CNA and not considering CNA expenses in the amount of \$829,462. SCB stated that if the Commission imputes additional revenue beyond that previously allowed to CNA, then it should either increase local exchange rates or recognize CNA expenses and adjust business and residence DA and CNA call allowances to the level necessary to recover CNA expenses.¹²

⁹ P.R., page 3 and attachment.

¹⁰ Mezzell, Exhibit 1.

¹¹ Ibid., page 5.

¹² Mezzell, page 4, and T.E., page 11.

The Commission disallowed CNA expenses in its Order of May 2, 1985, on the grounds that SCB's expense and other adjustments to CNA were not known and measurable.¹³ However, on rehearing the Commission is of the opinion that since revenue has been imputed to CNA, it is reasonable to impute some level of expenses to CNA.

However, of the \$829,462 in CNA expenses that SCB seeks to recover, a portion is recurring and a portion is non-recurring, with the ratio of recurring to non-recurring expenses changing as the level of call allowances changes.¹⁴

As in the case of SCB's revenue loss due to delayed implementation of a DA and CNA plan, CNA non-recurring expenses are short-term expenses associated with CNA "start-up" costs. Therefore, these expenses should not be recovered through increased exchange access or other recurring monthly rates. The Commission is, however, of the opinion that recurring expenses associated with CNA should be allowed.

In its Order of May 2, 1985, the Commission allowed additional DA and CNA revenue as follows:

DA	\$1,344,001
CNA	767,112
Total	<u>\$2,111,113</u> ¹⁵

¹³ Order, May 2, 1985, pages 53-54.

¹⁴ Staff Request Dated July 22, 1985, Item 1, Attachment 1.

¹⁵ Includes priceout error of \$30,332.

In this Order, the Commission will allow additional revenue in the amount of \$599,431 in CNA recurring expenses.

The Commission is of the opinion that the additional revenue allowed in this Order should be derived from DA and CNA through a tariff structure designed to match the required revenue as best as possible. This determination requires that the Commission restructure DA and CNA call allowances to allow three call allowances in the case of residence customers and zero call allowances in the case of business customers.

Finally, the Commission cautions SCB that this Order and its prior Order concerning CNA are subject to a United States Department of Justice ("DOJ") investigation of CNA-type service offerings by former Bell Operating Companies ("BOCs") as "enhanced services," which the Modification of Final Judgment¹⁶ prohibits BOCs from providing. In the event the DOJ issues a report or files suit adverse to BOC offerings of CNA-type services, the Commission reserves the right to review and revise its Orders concerning CNA.¹⁷

Findings and Orders

The Commission, after consideration of the evidence of record and being advised, is of the opinion and finds that:

¹⁶ United States District Court for the District of Columbia, Civil Action No. 82-0192, United States of America vs. Western Electric Company, Incorporated, and American Telephone and Telegraph Company.

¹⁷ The Commission commends SCB and its counsel for bringing the DOJ investigation to its attention. T.E., pages 5-7, and information filed September 3, 1985.

1. The same call allowance should apply to DA and CNA in total, without distinction as to whether a caller requests another customer's telephone number, name, or address.

2. SCB should not be allowed to recover any revenue loss due to delayed implementation of a DA and CNA plan.

3. The Commission erred in its priceout of DA and CNA in the amount of \$30,332.

4. SCB should not be allowed to recover non-recurring expenses associated with CNA.

5. SCB should be allowed to recover recurring expenses associated with CNA in the amount of \$599,431.

6. DA and CNA call allowances should be restructured to allow three call allowances in the case of residence customers and zero call allowances in the case of business customers.

7. The Commission should reconsider its Orders concerning CNA, pending the outcome of the DOJ investigation of CNA-type services.

IT IS THEREFORE ORDERED that:

1. SCB's proposal to apply the same call allowance to a DA and CNA plan be and it hereby is approved.

2. SCB's proposal to recover lost revenue due to delayed implementation of DA and CNA be and it hereby is denied.

3. SCB's proposal to recover revenue associated with priceout error be and it hereby is approved, in the amount of \$30,332.

4. SCB's proposal to recover non-recurring expenses associated with CNA be and it hereby is denied.

5. SCB's proposal to recover recurring expenses associated with CNA be and it hereby is approved, in the amount of \$599,431.

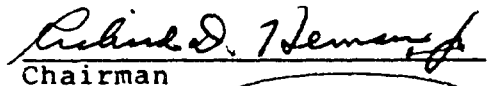
6. DA and CNA call allowances shall be three call allowances in the case of residence customers and zero call allowances in the case of business customers, effective on and after the date of this Order.

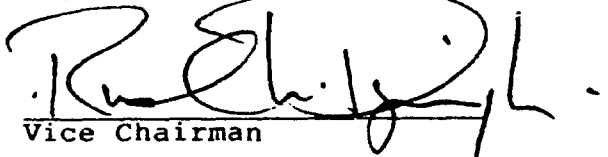
7. Nothing contained in this Order shall be interpreted to preclude the Commission from reconsidering its Orders concerning DA and CNA, pending conclusion of the DOJ investigation of CNA-type services and review of the DOJ findings.

8. Within 30 days from the date of this Order SCB shall file revised tariff pages with the Commission to implement the DA and CNA call allowances approved herein.

Done at Frankfort, Kentucky, this 1st day of November, 1985.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Secretary